



County of Santa Barbara

Restaurant Concession Audit



Photo of Boathouse at Hendry's Beach

Audit Report
September 6, 2016



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Overview

Introduction

We performed an audit of the Santa Barbara County’s (the County) concession agreements with three restaurants: Beachside Bar and Grill (Beachside), Boathouse at Hendry’s Beach (Boathouse), and the Jalama Beach Store (Jalama). Each of these concessioners pay the County rent based off of a percentage of gross receipts. Under the terms and conditions of the concession agreements, the County has the option to review the concessioners’ books and accounts upon reasonable request. Our work was limited to the Objectives and Scope section of this report. We believe the evidence obtained provides a reasonable basis for the findings in this report.

Objectives and Scope

The primary objectives of our audit were to determine whether the concessioners’ records adequately support the monthly gross receipts reported to the County and that rent was properly remitted to the County. Our scope was limited to certain records and documents for the period from July 1, 2012 through December 31, 2015 pertinent to the concession agreements between the County and Beachside, Boathouse, and Jalama.

Background

Beachside, Boathouse, and Jalama operate from County facilities at Goleta Beach, Arroyo Burro Beach, and Jalama Beach, respectively, and are managed by the Parks Division (Parks) of the Community Services Department. For fiscal year 2014-15, the County received rent payments totaling \$1,058,784 from the three concessioners.

An overview of the three concession agreements is presented as follows:

Concessioner	Start Date	End Date	Option to Extend	Rental Percentage	Improvements Required to be Made by Concessioner
Beachside	3/31/1985	3/31/2022	None	6%	Responsible for all construction costs of a convenience market and bait and tackle shop
Boathouse	2/1/2008	12/31/2017	Concessioner has the option to extend for one additional 10 year term followed by one additional five year term	10%, plus 1.4% on annual gross receipts over \$3.8M	Responsible for improvements amounting to approximately \$825,000
Jalama	1/1/2008	12/31/2017	Can be extended for two additional 5 year terms upon agreement of both concessioner and County	8%	Responsible for improving counter, char-grill, freezer, and removing existing counter

Overview

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Conclusion

In general, we found that the concessioners' records adequately supported gross receipts, with the exception of the exclusion of certain revenues at Boathouse. We also noted additional areas where improvements could be made to the concession agreements.

Findings and Recommendations

Finding 1 – Gross Receipts Definition

The term gross receipts is defined in Beachside’s concession agreement, however, it is not specifically defined in the concession agreements for Boathouse and Jalama. Although the definition of gross receipts included in Beachside’s agreement appears generally adequate, other elements including interest, discounts such as coupons or comped food and drink, and revenues resulting from advertising at the premises could be added to clarify which revenues are included in gross receipts for purposes of calculating rent. When gross receipts are not specifically defined, it creates uncertainty as to what should be deducted from or included in revenue.

Recommendation 1: We recommend that future concession agreements define gross receipts. Furthermore, Parks should evaluate whether the definition included in Beachside’s agreement is adequate and evaluate whether other terms and conditions should be incorporated into the definition.

Finding 2 – Underpayment of Rent

Boathouse determines its monthly rent payments off of data from its register sales system, which does not include other income received outside of the register system. By including other income in gross receipts, Boathouse owes the County an additional \$31,361. Parks performs an annual reconciliation of revenues to the register sales system, but does not compare the register system to Boathouse’s financial statement and as a result did not detect the omission.

Recommendation 2: Boathouse remitted the funds owed to the County. We recommend that, in addition to the annual reconciliation already performed, Parks staff also reconcile the register sales reports to the concessioner’s financial statement in order to determine whether rent payments include all applicable revenues.

Finding 3 – Terms and Conditions

During our audit, we noted that the Boathouse and Jalama concession agreements required concessioners to provide an Annual Report detailing concessioners’ current officers and general operations on the property. However, these reports have not been provided to Parks.

Recommendation 3: We recommend that the County require compliance with all terms and conditions or remove these from future agreements.

Findings and Recommendations

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Finding 4 – Varying Percentage of Gross Receipts

As depicted in the chart in the background section, Beachside, Boathouse, and Jalama pay different rental rates of 6%, 10-11.4%, and 8%, respectively, and have varying required improvements.

Recommendation 4: In order to obtain the most competitive and current rental rates, the County should consider shorter lease terms and request bids when concession agreements are up for renewal. The County should also consider adding a rent escalation clause to long term agreements.

Acknowledgement

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The responses to the findings, conclusions, and recommendations, as well as any planned corrective actions, are presented as an attachment to this report. We have not evaluated the validity of these comments.

We appreciate the courtesy extended to us by all three concessioners and the Parks department during this audit. If we can be of further assistance, please contact us at (805) 568-2100.

Respectfully Submitted,



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Audit Manager



**Community
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Audit Responses:

Finding #1 – Gross Receipts Definition

Response - Agreed, Parks will define gross receipts in future concessionaire agreements.

Finding #2 – Underpayment of Rent

Response - Agreed, Parks staff will receive and evaluate Boathouse Financial Statements during annual reconciliation of revenues.

Finding #3 – Terms and Conditions

Response - Agreed, Parks will request annual report from concessionaires Jalama and Boathouse Concessionaires.

Finding #4 – Varying Percentage of Gross Receipts

Response - Agreed, Parks will consider shorter lease terms and competitive rates for future concessionaire agreements.